

DRAFT – Not Yet Reviewed or Adopted by the Task Force

1. Introductions of Task Force chair, members, Sterling Associates and audience.
2. Welcome and opening remarks from Merritt Long, LCB chairman.
 - a. This is a very important and timely effort. Focus attention and consideration on three things:
 - b. Wine and beer sales and distribution is at a critical junction. The LCB has heard the current system is outdated, archaic, cumbersome, complex – especially related to the mundane. LCB realizes that the three-tier system places constraints on the business. The time has more than come for a comprehensive review of the three-tier system.
 - c. Should the three-tier system be changed, and if so how?
 - i. Passage of Senate Bill 6823.
 - ii. Judicial – US District Court ruling that constraints of current rules are in violation of 21st amendment. The state is appealing the decision, but regardless of that outcome, this is an issue the LCB believes needs to be reviewed.
 - iii. The Board has no preferred outcome related to the Task Force findings and recommendations. We understand the Task Force may recommend an entire system overhaul, modifications or status quo with minor changes – all and more are options.
 - iv. Sterling Associates, a management consulting firm, has been hired to be an objective party to facilitate the Task Force, provide analysis and prepare the final report on behalf of the Task Force.
 - v. The report will go to the LCB, but will be presented “as is” to the Legislature. The report will not be edited or modified by the LCB.
 - vi. There is a relatively short amount of time for results – the report is to be complete by November. The Task Force will likely need to scope its work to short, medium and long-term areas to address.
 - d. Working toward greater good.
 - i. Each member is encouraged to focus beyond just personal interests, and to also consider the greater good and impact to Washington State and citizens.
3. Nate Ford (Task Force Chair) – presented the Task Force Ground Rules (Handout #2).
 - a. Will Task Force members have time for consideration before a vote?
 - i. Nate Ford/Sterling: Members may have time to consider a vote if the group needs it. Members may need to then vote via email, since some direction will be needed to focus materials for a subsequent meeting.
 - b. Will an employee union representative participate in Task Force?
 - i. LCB: No. The scope of the Task Force review does not include LCB monopoly sale of spirits and is not expected to have any impact on LCB store employees.

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- c. Can Task Force members choose their own substitutes if they need to miss a meeting?
 - i. Nate Ford: Yes. They must conform to the Ground Rules (Handout #2), meaning the substitute is backgrounded, prepared and ready to speak for the member, and will brief the member on the meeting afterward since the meetings will not backtrack.
- 4. Task Force Charter discussion (p.5-6 of presentation and Draft Task Force Charter)
 - a. A suggestion was made to change the language regarding recommendations consistent throughout the document. The language should make it clear that there may or may not be improvements necessary, or recommendations made. This language needs to be added to the Success section - "...recommendations, if any.." Same in Purpose section, and Roles and Responsibilities. There was no objection.
 - b. Sterling will make changes and email revised Charter to Task Force members.
- 5. Process (presentation)
 - a. Who is participating in interviews and focus groups? ACTION: Sterling will bring a list to the next meeting.
- 6. Jim Goldberg – General Counsel for National Alcohol Beverage Control Association (NABCA) in Virginia. (See "The American Experience with Alcohol" PowerPoint presentation.) All questions below addressed by Mr. Goldberg.
 - a. Are there any other states going through the kinds of challenges that WA is facing, related to the Costco case, etc.?
 - i. Most states are looking at in-state vs. out-of-state producers and how they are treated.
 - ii. Washington is ahead of the curve considering the issues brought through the Costco lawsuit and doing this Task Force review with a broad scope.
 - b. Are there any data on public safety goals in other states?
 - i. There is data that implies there are lower sales of alcohol per capita in control states of the controlled product (in Washington that mean spirits-distilled alcohol.). Not aware of anything on alcohol abuse correlated specifically to the method of control. There are so many permutations of control, it is hard to correlate data to specific regulatory practices.
 - c. How many states are using only the Federal Tied House laws, without and have not added more restrictive state rules?
 - i. Jim Goldberg will research that. (ACTION: Sterling will relay the answer to this question when received by Mr. Goldberg.)
 - d. Is it true every state has a three-tier system?
 - i. Yes, every state has a mandated three-tier system. Some states compress the tiers so that some entities may participate in all three tiers. (Example: a winery may be a producer, a wholesaler and have a retail outlet.)

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- e. Are there pricing regulations at the Federal level?
 - i. No.
- 7. Current System presentation (see presentation materials)
 - a. What was the purpose of the sunset clause in 6823?
 - i. Senator Kohl-Welles: To give time for the Task Force to conduct the review.
 - ii. Phil Wayt: To give the new rules some time to see how it works and an automatic time to re-examine them.
 - b. What is the purpose of Post and Hold? What is it designed to achieve and prevent?
 - i. LCB Staff: The purpose is to achieve uniform pricing by wholesalers and distributors. Manufacturers post their prices to distributors, and distributors post prices to retailers. Have to hold for 30 days without change to prevent drastic fluctuation in prices.
 - ii. LCB Staff: It also provides information for the LCB on what the prices are and helps address complaints about non-uniform prices or bulk discounts that are not allowed. It facilitates enforcement of pricing controls.
 - c. Concern that the term “orderly market” is used a lot, but it is not clear what the definition is.
 - i. Sterling: will discuss with policy goals in next part of meeting.
 - d. The LCB is also a retailer. How does that fall into the current system scheme?
 - i. LCB: It is part of the controlled distribution.
- 8. Discussion of Washington State’s highest-level policy goals for alcohol controls – not how they are supported, that will be a later discussion, but are they still relevant today? Do they need to be modified? Are there additions?
 - a. The social, political and business environment has changed since the 1930’s. (See presentation)
 - i. Comment that education about alcohol use is not just about the negative aspects of alcohol but also about the health benefits of alcohol when used in moderation.
 - b. Current goals are 1) to moderate consumption, 2) to promote an orderly market, and 3) to promote the efficient collection of state taxes.
 - c. Summary of discussion (no final decisions made):
 - i. Discussion of goal 1 to moderate consumption. There were some suggestions for re-wording the goal, but general consensus that the goal is relevant today.
 - ii. Discussion of goal 2 related to an orderly market. Discussion focused on varying definitions of what “orderly market” means and whether it is a way to support goals 1 and 3 rather than a goal in itself. Some members stated it should not be a goal, but that 1 and 2 are sufficient. Others stated that an orderly market goal is critical.

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- iii. ACTION: Sterling will prepare a revised draft definition gleaned from comments during interviews and focus groups and email to the Task Force to consider for the continuation of the discussion at the next meeting.
- iv. Discussion of goal 3 related to tax collection – general consensus that the goal is relevant today.

9. Closing (Sterling Associates)

- a. Agenda accomplished!
- b. Next meeting May 18, 10a-3p, LCB Olympia Headquarters, 2nd floor, Conference Room.
- c. Will continue policy and strategy discussions next meeting, and also present results from interviews and focus groups.
- d. LCB provided a hard copy synopsis of the Costco v. Hoen lawsuit, a press release indicating the state's intention to appeal the court decision in that lawsuit, and information that will be contained on the LCB's website through the link to the Three-Tier Task Force (www.liq.wa.gov).
- e. Task Force members, please review meeting materials that come to you before the next meeting.
- f. Request for Task Force members to receive contact information for other Task Force members.
ACTION: Sterling will email contact information to the Task Force members.